

**REPORT OF THE AUDIT OF THE
HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
June 16, 2009 Through April 15, 2010**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Joseph A. Grieshop, Harlan County Judge/Executive

Honorable Marvin J. Lipfird, Harlan County Sheriff

Members of the Harlan County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, presents the financial statement of the Harlan County Sheriff's Settlement - 2009 Taxes for the period June 16, 2009 through April 15, 2010.

We engaged Morgan-Franklin, LLC to perform the audit of this financial statement. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated the Harlan County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period
June 16, 2009 Through April 15, 2010

Morgan-Franklin, LLC has completed the audit of the Sheriff's Settlement - 2009 Taxes for the Harlan County Sheriff for the period June 16, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$8,973,240 for the districts for 2009 taxes, retaining commissions of \$374,259 to operate the Sheriff's office. The Sheriff distributed taxes of \$8,588,045 to the districts for 2009 taxes. Taxes of \$10 are due to the districts from the Sheriff and refunds of \$291 are due to the Sheriff from the taxing districts.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
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Honorable Marvin J. Lipfird, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the Harlan County Sheriff's Settlement - 2009 Taxes for the period June 16, 2009 through April 15, 2010. This tax settlement is the responsibility of the Harlan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Harlan County Sheriff's taxes charged, credited, and paid for the period June 16, 2009 through April 15, 2010 in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Honorable Marvin J. Lipfird, Harlan County Sheriff
Members of the Harlan County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated May 25, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

May 25, 2011

HARLAN COUNTY
MARVIN J. LIPFIRD, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period June 16, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special District Taxes</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,674,748	\$ 967,264	\$ 1,711,010	\$ 674,321
Tangible Personal Property	849,028	453,254	808,766	954,090
Fire Protection	4,728			
Franchise Taxes	183,611	99,332	169,116	
Additional Billings	8,081	4,512	7,209	3,162
Oil, Gas, Limestone, sand and Gravel Property Taxes	268,114	154,851	328,284	107,953
Bank Franchises	87,213			
Penalties	22,567	12,917	23,476	11,164
Adjusted to Sheriff's Receipt	2,049	(641)	(379)	(151)
Gross Chargeable to Sheriff	<u>3,100,139</u>	<u>1,691,489</u>	<u>3,047,482</u>	<u>1,750,539</u>
<u>Credits</u>				
Exonerations	13,201	7,576	14,535	6,204
Discounts	41,298	22,127	39,700	24,222
Delinquents:				
Real Estate	140,547	81,174	144,708	56,590
Tangible Personal Property	7,050	3,764	6,628	6,731
Franchise Taxes	141	75	138	
Total Credits	<u>202,237</u>	<u>114,716</u>	<u>205,709</u>	<u>93,747</u>
Taxes Collected	2,897,902	1,576,773	2,841,773	1,656,792
Less: Commissions *	<u>123,161</u>	<u>67,013</u>	<u>113,671</u>	<u>70,414</u>
Taxes Due	2,774,741	1,509,760	2,728,102	1,586,378
Taxes Paid	2,771,380	1,507,953	2,724,858	1,583,854
Refunds (Current and Prior Year)	<u>3,396</u>	<u>1,813</u>	<u>3,371</u>	<u>2,637</u>
Due District or (Refunds Due Sheriff)		**		
as of Completion of Audit	<u>\$ (35)</u>	<u>\$ (6)</u>	<u>\$ (127)</u>	<u>\$ (113)</u>

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY
MARVIN J. LIPFIRD, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES
For The Period June 16, 2009 Through April 15, 2010
(Continued)

* Commissions:

4.25% on	\$	6,131,467
4% on	\$	2,841,773

** Special Taxing Districts:

Library District	\$	(6)
Health District		(3)
Extension District		(7)
Soil Conservation		10
		<hr/>

Due District or		
(Refunds Due Sheriff)	\$	<u>(6)</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Harlan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2010
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Harlan County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 27, 2009 through April 15, 2010.

B. Oil and Gas Taxes

The collection period for 2009 gas and oil taxes was November 4, 2009 through April 15, 2010.

C. Limestone, Sand, and Mineral Reserves

The collection period for limestone, sand, and mineral reserves was November 4, 2009 through April 15, 2010.

Note 4. Interest Income

The Harlan County Sheriff earned \$1,052 as interest income on 2009 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Harlan County Sheriff collected \$60,665 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2010
(Continued)

Note 6. Unrefundable Duplicate payments And Unexplained Receipts

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed monies. After three years, if the funds have not been claimed, they should be submitted to the Kentucky State Treasurer. For the 2009 taxes, the Sheriff had \$607 in unrefundable duplicate payments and unexplained receipts. There was a balance in the Sheriff's escrow account of \$5,073 as of June 15, 2009, for surplus money from prior years. The Sheriff had receipts of \$11 for interest and \$282 for 2007 taxes for an ending balance of \$5,366 as of April 15, 2010. Therefore, the Sheriff should send a written report to the Treasury Department.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Honorable Marvin J. Lipfird, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Harlan County Sheriff's Settlement - 2009 Taxes for the period June 16, 2009 through April 15, 2010, and have issued our report thereon dated May 25, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harlan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Harlan County Sheriff's Settlement - 2009 Taxes for the period June 16, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Harlan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

May 25, 2011

